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State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

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## **IDAHO COMMISSION ON THE ARTS**

**FY 2005 and 2006**

**Report IC13206**

**Date Issued: January 11, 2008**

*Serving Idaho's Citizen Legislature*

# FOREWORD

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## **PURPOSE OF REPORT**

We evaluated the internal controls over financial operations of the Idaho Commission on the Arts as part of our effort to evaluate each State agency at least once every three years. This report summarizes the results of our evaluation.

## **SCOPE OF WORK**

The management of the Commission is responsible for establishing and maintaining internal controls. We obtained an understanding of the relevant policies and procedures comprising the internal control system. We also determined whether the relevant policies and procedures had actually been placed into operation. Our intent was to indicate where internal controls could be improved in order to help ensure the Commission's ability to record, process, summarize, and report financial data accurately.

## **AUDIT AUTHORIZATION**

Reported to the Joint Finance-Appropriations Committee as directed by the Legislative Council of the Idaho Legislature, authorized by Idaho Code, Section 67-429.

## **ASSIGNED STAFF**

Aimee Hayes, CPA, Staff Auditor  
Jolene Crumley, Staff Auditor

## **ADMINISTRATION AND TECHNICAL REVIEW**

Don H. Berg, CGFM, Manager, Legislative Audits Division  
April Renfro, CPA, Managing Auditor

# TABLE OF CONTENTS

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Executive Summary .....	1
Agency Response .....	6
Appendix .....	8



## EXECUTIVE SUMMARY LEGISLATIVE AUDITS

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### IDAHO COMMISSION ON THE ARTS

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**PURPOSE AND SCOPE** – We performed certain audit procedures to evaluate the effectiveness of the Idaho Commission on the Arts' internal control design and operation. The limited scope of our procedures does not allow us to give an opinion on the Commission's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed. Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. Any findings and recommendations are intended to improve the internal control system to prevent errors, omissions, misrepresentations, or fraud.

**CONCLUSION** – Although we include four findings and recommendations in this report, we conclude that the financial operations of the Commission meet accepted standards, and that the Commission substantially complies with laws, regulations, rules, grants, and contracts for which we tested compliance.

#### **FINDINGS AND RECOMMENDATIONS:**

**FINDING #1** – The ACCESS database is not reconciled to the STARS accounting system, resulting in unsupported financial reports to the Commission's Board. The Commission uses the Microsoft ACCESS program to track financial activities and prepare financial reports presented to the Board and others. Data is entered into the ACCESS program and the STARS accounting system from the original source documents, but no reconciliation process exists to ensure that this data is properly recorded in both systems.

We noted significant variances between the ACCESS data and the STARS accounting system data that resulted in unsupported financial reports to the Board. For example, total expenditures reported to the Board for the first and third quarters of fiscal year 2006 were each understated by more than \$120,000. We also noted that budget amounts reported to the Board fluctuated each quarter but these fluctuations were not clearly identified or explained. These undisclosed changes tend to reduce the usefulness of the comparison of budget-to-actual expenditures as a management tool.

**RECOMMENDATION #1** – **We recommend** that the Commission establish a monthly reconciliation process between the ACCESS and STARS data performed at the sub-object level for both expenditures and revenues. **We also recommend** that budget reports presented to the Board clearly identify original and adjusted amounts and include explanations to support those adjustments.

**AGENCY'S CORRECTIVE ACTION PLAN** – "The Idaho Commission on the Arts has eliminated the double-entry system and has converted to on-line payment services and IBIS as our reporting tools. This process, along with STARS reports will allow us to better track our revenues and expenditures, and therefore provide accurate reports to the Commission. We have changed our monthly reconciliation process to the sub-object level and will identify any adjustments to the original budget that was approved by the Commission."

**FINDING #2 – The high volume of expenditure adjustments and coding errors indicate the need for improved oversight and review.** Expenditure transactions are initiated and posted to the accounting system by one of two staff members and reviewed by the office manager. Adjustments are sometimes necessary to correct errors or realign costs to the appropriate funding source. However, the Commission posted a high volume of adjustments during fiscal year 2006, many of which were several months after the original transaction and lacked proper support or documentation.

Our limited review of the 284 adjustments posted during fiscal year 2006 showed that many of these should have been identified and corrected at the time the original transaction was posted. We also noted that expenditures were sometimes paid twice, or for incorrect amounts, inconsistently coded when compared to similar transactions, or were not supported by the original documents. All of these indicate the need for improvements in the oversight and review process to reduce the workload associated with posting adjustments, as well as improving the reliability of the financial information.

**RECOMMENDATION #2 – We recommend** that the Commission improve the oversight and review process to reduce the need for adjustments, improve the documentation that supports the adjustments, and improve the overall reliability of the financial information.

**AGENCY'S CORRECTIVE ACTION PLAN –** "In Payment Services, the Commission has established a pre-audit system between the fiscal specialist and grants specialist. This process: 1) cross trains the fiscal and grants specialists in the use of the proper sub-object codes; and 2) reduces the need for adjustments. Both the grants and fiscal specialists will discuss questioned sub-objects with the office manager. All sub-object code reconciliations will be done on a monthly basis."

**FINDING #3 – Federal funds are drawn early in error.** Commission policy states that federal funds are drawn when the cash balance in the fund falls below \$20,000. However, 13 of 16 draws were made when the cash balance was over \$40,000, and 3 draws were made when the balance was in excess of \$140,000.

In addition, the calculation of the draw amount is based on estimated expenditures using prior year monthly data. However, this data includes adjustments which can significantly alter the actual expenditures in the prior period, and could result in improper and unsupported draws. We also noted that no support was available for the draw amounts requested on the National Endowment for the Arts grant.

These errors occurred because the process for approving draw amounts is not consistently followed, properly documented, or linked to the cash balance in order to comply with Commission policy.

**RECOMMENDATION #3 – We recommend** that the Commission comply with the policy for drawing federal funds and document the review and approval processes, with a comparison of the cash balance prior to each draw. **We also recommend** that estimates used to support the draw amounts are based on prior year expenditures that are net of adjustments.

**AGENCY'S CORRECTIVE ACTION PLAN –** "The Commission will submit cash requests on a monthly basis and in the form of a cash reimbursement for the prior month's expenditures. This will enable us to submit accurate cash requests based on the prior month's expenditures rather than a cash advance based on the prior year's expenditures during that month. The Commission will establish a policy as to how federal draw downs will be processed."

**FINDING #4 – A gift to a Commissioner exceeded the limits allowed by Idaho Code.** Idaho Code, Section 18-1359 prohibits any public servant from accepting a pecuniary benefit in excess of \$50 as payment for services exercised in the course of their official duties. The Commissioners do not receive any honorarium or compensation, other than reimbursement for actual expenses, as established in Idaho Code, Section 59-509 (b).

A Commissioner was provided a gift costing \$550 and \$200 in cash in recognition of chairing the Governor's Awards for the Arts. Contributions of \$280 were received to offset the cost of this gift and commingled with the Commission's State funds. This amount exceeds the limits established by Idaho Code and raises the possibility that the remaining \$470 of this gift was funded with State funds.

**RECOMMENDATION #4 – We recommend** that the Commission strengthen controls and the review processes to ensure that all expenditures are in compliance with Idaho Code. Gifts should be limited to no more than \$50, and any contributions unrelated to the Commission's programs should be accounted for separately and not commingled with State funds.

**AGENCY'S CORRECTIVE ACTION PLAN –** "The Idaho Commission on the Arts will strictly comply with Idaho Code, Section 18-1359. The Commission takes seriously its role as stewards of the public dollars that are allocated to support public participation in the arts in Idaho."

**PRIOR FINDINGS AND RECOMMENDATIONS –** There was one finding and recommendation in the prior report. As discussed below, the recommendation was implemented and the finding is closed.

**PRIOR FINDING #1 – The Commission is not in compliance with federal grant cash management requirements.** Cash advances are not expended in accordance with federal cash management requirements of the National Endowment of the Arts (NEA) grant. NEA requires cash advances reflect current expenditures or funds must be disbursed immediately upon receipt. Some of the advanced funds were not spent until six months after the initial drawdown of the funds.

On several occasions, the Commission took up to six months to spend a federal cash advance. For example:

- In October 2002, the Commission withdrew \$100,000 in NEA grant funds. These funds were not completely spent until January 2003. Prior to spending this \$100,000, the Commission withdrew another \$50,000 in NEA grant funds.
- In July 2003, the Commission withdrew \$280,000 in NEA grant funds. These funds were not completely spent until December 2003. During this same time period, the Commission withdrew another \$140,000 in NEA grant funds.

Commission staff does not have adequate training or understanding of the cash management requirements for the NEA grants. Noncompliance with NEA cash management restrictions may result in the NEA withholding grant payments, terminating grants, or requiring interest reimbursements.

**PRIOR RECOMMENDATION #1 – We recommended** that Commission staff receive additional grant management training and in the future, comply with the grant requirements.

This finding was originally closed because Commission staff completed two interactive training courses covering cash management and OMB's compliance supplement, and they implemented a process of using past expenditure information to forecast current cash needs. However, a portion of this finding is repeated with additional information as Finding #3 above. **CURRENT STATUS: CLOSED**

**AGENCY RESPONSE** – The Commission has reviewed the report and provided a response to each recommendation, which we have placed with each issue and identified as the "Agency's Corrective Action Plan."

**FINANCIAL SUMMARY.** The following financial data is included for information purposes only.

**IDAHO COMMISSION ON THE ARTS – FISCAL YEAR 2006 FINANCIAL SUMMARY**

	General Fund 0001	Budget Stabilization Fund 0150	Federal Fund 0348	Miscellaneous Revenue Fund 0349	Total
Beginning Balance	\$0	\$0	\$124,350	\$72,595	\$196,945
Appropriations/Reappropriations	844,800	0	0	0	844,800
Receipts and Transfers In	514	10,282	596,821	70,583	678,200
Total Funds Available	\$845,314	\$10,282	\$721,171	\$143,178	\$1,719,945
Personnel Costs	314,753	10,282	256,695	0	581,730
Operating Expenditures	151,942	0	113,472	78,011	343,425
Capital Outlay	1,876	0	0	0	1,876
Federal Subgrantee Payments	0	0	266,246	45	266,291
Miscellaneous Payments as Agents	51,335	0	29,254	1,333	81,922
Non-Federal Subgrantee Payments	324,965	0	0	13,458	338,423
Total Expenditures	\$844,871	\$10,282	\$665,667	\$92,847	\$1,613,667
Ending Fund Balance	443	0	55,504	50,331	106,278
Reversions	(443)	0	0	0	(443)
Ending Free Fund Balance	\$0	\$0	\$55,504	\$50,331	\$105,835

The Commission is funded by a General Fund appropriation, federal NEA grants, donations, and the sale of goods and services. The funds are used for administration of the Commission and to fund art education, art performances, and exhibits.

**GENERAL FUND 0001** – The General Fund appropriation is used for administrative costs of the Commission; grants to individuals, organizations, and schools; and support for programs.

**BUDGET STABILIZATION FUND 0150** – The Commission received an appropriation from the Budget Stabilization Fund to offset the increase in personnel costs caused by the extra pay period in fiscal year 2006.

**FEDERAL FUND 0348** – This fund is used to account for federal grants from the NEA that are used to cover administrative costs and to provide grants to individuals and organizations.

**MISCELLANEOUS REVENUE FUND 0349** – Revenue is derived from conference registration fees, contributions from corporations and foundations for special projects, and private contributions. These funds are used to pay costs of conferences and to conduct special projects or for coordinating projects for corporations and foundations.

**OTHER ISSUES.** We discussed other matters with the Commission which, if addressed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Idaho Commission on the Arts and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the executive director, Michael Faison, and his staff.

**QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:**

Don H. Berg, CGFM, Manager, Legislative Audits Division

April Renfro, CPA, Managing Auditor

Report IC13206



# AGENCY RESPONSE

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November 19, 2007

C.L. "Butch" Otter  
GOVERNOR

COMMISSIONERS

Mark Hofflund  
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Vice Chair  
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Moscow

Jeanne Anderson  
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Don Berg, Division Manager  
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Boise, Idaho 83720-0054

Dear Mr. Berg:

RE: Audit Issues and Recommendations FY 2005 and 2006

First, please thank your staff for their professionalism while at the Idaho Commission on the Arts. Both Aimee Hayes and Jolene Crumley went out of their way to accommodate our agency needs and created few if any disruptions in agency operations. Ms. Hayes and Ms. Crumley were helpful with our questions and offered well-reasoned suggestions. When they did not have an immediate answer to a question, they researched it and returned with a thoughtful response. The Idaho Commission on the Arts thanks the Audit Team for their advice and guidance in conducting the auditing process that provides our agency with professional guidance and review of agency fiscal processes. Our agency has taken the team's recommendations to heart and implemented improvements in this response:

**Finding #1**

ACCESS database is not reconciled to the STARS accounting system, resulting in unsupported financial reports to the Commission's Board.

**Response and Action Plan**

The Idaho Commission on the Arts has eliminated the double entry system and has converted to on-line payment services and IBIS as our reporting tools. This process along with STARS Reports will allow us to better track our revenues and expenditures and therefore provide accurate reports to the Commission. We have changed our monthly reconciliation process to the sub-object level and will identify any adjustments to the original budget that was approved by the Commission.

**Finding #2**

The high volume of expenditure adjustments and coding errors indicate the need for improved oversight and review.

**Response and Action Plan**

In Payment Services, the Idaho Commission on the Arts has established a pre-audit system between the fiscal specialist and grants specialist. This process: 1) cross trains the fiscal and grants specialists in the use of the proper sub-object codes; and 2) reduces the need for adjustments. Both the grants and

fiscal specialists will discuss questioned sub-objects with the office manager. All sub-object code reconciliations will be done on a monthly basis.

**Finding #3**

Federal funds are drawn early in error.

**Response and Action Plan**

We will submit cash requests on a monthly basis and in the form of a cash reimbursement for the prior month's expenditures. This will enable us to submit accurate cash requests based on the prior month's expenditures rather than a cash advance based on the prior year's expenditures during that month. The Commission will establish a policy as to how federal draw downs will be processed.

**Finding #4**

A gift to a Commissioner exceeded the limits allowed by Idaho Code.

**Response and Action Plan –**

The Idaho Commission on the Arts will strictly comply with Idaho Code, Section 18-1359.

The Idaho Commission on the Arts takes seriously our role as stewards of the public dollars that are allocated to support public participation in the arts in Idaho. We are grateful for the professional guidance provided in the findings and look forward to an audit that is free of any findings, following our next review. If you have questions or concerns, call 1-208-334-2119.

Sincerely,



Michael Faison  
Executive Director

Cc: Mark Hofflund, Chair

# APPENDIX

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## HISTORY

The Governor of Idaho created the Idaho Commission on the Arts by Executive Order in 1966. The Commission was permanently established by the Idaho Legislature during its 1967 session. The Commission was moved under the Office of the Governor in 2004.

## STATUTORY

Idaho Code, Title 67, Chapter 56, provides statutory authority for the Commission.

## PURPOSE

The Commission is the State's primary cultural development agency. Its purpose is to:

- Provide all Idahoans opportunities for education and experience in quality visual, performing, literary, media, and traditional arts.
- Promote the arts as a basic part of education.
- Support individual artists in order to strengthen artistic excellence and management skills.
- Support organizations in order to enhance artistic excellence and management capabilities.
- Provide, as an advocate for the arts, responsible stewardship of financial and human resources entrusted to the Commission in the most effective and cost-efficient manner.

Activities of the Commission are summarized below:

- The Commission makes grants available to organizations that provide direct financial assistance to cultural organizations for high quality art projects that serve the people of Idaho.
- The Arts-in-Education Program places professional artists-in-residence in communities, encourages innovative efforts in art education, supports new partnerships between artists, educates students of all ages, and assists Idaho teachers with the development of innovative art education curriculums.
- The Community Development Program provides fee support to community sponsors for performances and exhibits, and provides management training and fee support for presenting organizations in rural communities with populations of 5,000 or less.
- The Folk Arts Program researches, documents, and preserves Idaho folk traditions through exhibitions, a slide-tape series on Idaho folk art, recordings of Idaho folk music, and Native American apprenticeships.

- The Public Information Program directs and facilitates the exchange of information between national/local artists and organizations, and publishes a bimonthly newsletter.
- The Artists Services Program provides cash awards to qualifying artists, in recognition of outstanding work, to enable artists to work with a master, or to support activities relevant to an artist's work and/or career.
- The Literature Program coordinates residency tours by Idaho's designated writer-in-residence, promoting interaction and appreciation for literature among the people of Idaho.

## ORGANIZATION

The Idaho Commission on the Arts is under the Office of the Governor. The Commission's organizational structure operates independently from the umbrella office, except for budgetary purposes. The Commission is composed of 13 private citizens of the State, who are widely known for their interest, competence, and experience in the arts, appointed by the Governor to 4-year terms. A chair and vice-chair are designated by the Governor.

The Commissioners hire an executive director, who is responsible for the day-to-day operations and staff supervision.

## FUNDING

**General Fund 0001** – The General Fund appropriation is used for administrative costs of the Commission; grants to individuals, organizations, and schools; and support for programs.

**Budget Stabilization Fund 0150** – This fund accounted for an appropriation from the Budget Stabilization Fund to offset the increase in personnel costs caused by the extra pay period in fiscal year 2006.

**Federal Fund 0348** – This fund receives federal grants administered by the NEA that are used to cover administrative costs and to provide grants to individuals and organizations.

**Miscellaneous Revenue Fund 0349** – Revenue is derived from conference registration fees, contributions from corporations and foundations for special projects, and private contributions. These funds are used to pay costs of conferences and to conduct special projects funded by contributions or for coordinating projects for corporations and foundations.

# Commission on the Arts Agency Profile

Analyst: Swanson

## Organizational Chart

